

Written Questions for Ms. Linda M. Combs:

1. How does IPIA information actually get delivered to Congress? In statute, the IPIA says that the agencies are to report to Congress, but I'm not sure how that actually happens. For PAR reporting, statute says all agencies are to use the same method of reporting, and that method is to be determined by OMB. Does OMB bring the PARs of evaluated PARs to the Hill, or is the information transmitted through OMB's scorecard?

IPIA information is delivered to Congress primarily through agency submission of the annual Performance and Accountability Reports. The CFO Council standardized the PAR reporting format for agencies to follow beginning with the FY 2004 submission. In addition, OMB issued a first government-wide report entitled, "Improving the Accuracy and Integrity of Federal Payments," in January 2005, which was transmitted to Congress. OMB plans to issue this report annually. The scorecard process for the Eliminating Improper Payments PMA initiative contains quarterly updates on agency progress which is posted on the OMB and Results.gov web sites, but is not specifically transmitted to Congress.

2. The Improper Payments Information Act requires agencies to report improper payments to Congress each year, but when these payments are estimated to exceed \$10 million or more in any program or activity. OMB's implementing guidance further modifies this reporting requirement by requiring agencies to only report improper payments in a program exceeding both 2.5 percent of program payments and \$10 million.

A) Please explain in detail OMB's justification for imposing the 2.5 percent standard and whether or not *you* have given consideration to changing this standard?

OMB developed its implementation guidance to ensure that agencies implement effective and aggressive approaches for detecting and eliminating improper payments. By establishing a risk threshold of a 2.5% error rate and \$10 million, OMB has enabled agencies to prioritize error reduction activities on programs where taxpayers will see the most benefit from agency efforts. Notably:

- \$1.4 billion (60%) out of \$2.3 trillion in total Federal FY 2004 outlays were determined to be risk susceptible.
- The \$900 billion deemed to be not risk susceptible is comprised primarily of employee compensation, contracts and administrative expense, net interest on the public debt, and small outlay/low risk programs.

OMB will work closely with agencies that report on programs with more than \$10 million in improper payments, but that fall below the 2.5% error rate threshold, to ensure proper monitoring. We are currently working with the Chief Financial Officer's Council to determine potential changes to OMB's implementation guidance for the FY 2006 reporting cycle.

B) Does this criteria leave out any DOD programs? If so, which ones?

DOD will report on all programs that meet the guidance standards in the upcoming FY 2005 PAR. While not publicly reported, DOD actively tracks all programs with improper payments that exceed \$10 million, regardless of the improper payment rate.

3. Please list the agencies and programs that previously reported improper payments under Section 57 of Circular A-11 that currently do not meet the two-prong OMB guidance standard?

OMB's implementing guidance requires that all Section 57, A-11 programs, regardless of improper payment amount or rate, be reported under the IPIA. A small number of programs were eliminated from A-11 prior to the issuance of OMB's implementing guidance or have otherwise been exempted from IPIA reporting. Such programs, when measured, consistently demonstrated low amounts of improper payments (i.e., less than \$10 million). OMB continues to work with agencies to periodically examine whether these programs should be added back to IPIA reporting.

4. The 2001 version of Circular A-11 included the U.S. Agency for International Development in Section 57, while the June 2002 revision to Circular A-11 (as reported by GAO), reduced the number of CFO Act agencies required to submit erroneous payment data from 15 to 14, removing AID from the list. Please explain the reasoning for this change.

As referenced above, a small number of programs were eliminated from A-11 prior to the issuance of OMB's implementing guidance or have otherwise been exempted from IPIA reporting. Such programs, when measured, consistently demonstrated low amounts of improper payments (i.e., less than \$10 million). In the case of USAID, the agency adequately demonstrated such a small improper payment amount and rate that the costs of tracking improper payments did not justify the benefits.

5. Do you support USAID's internal assessment that none of their programs were considered to be at risk for "significant" improper payments? Please provide, in detail, OMB's reasoning for supporting or refuting their conclusion.

Agencies are required to perform their risk assessments on an annual basis. When USAID submitted their documentation for FY 2004, OMB deemed it acceptable. However, we pointed out at that juncture that USAID must implement a recovery auditing effort as they fund more than \$500 million in contracts annually. USAID's recovery auditing report will be submitted as part of

the FY 2005 PAR. We will also re-evaluate their risk assessments at that time to determine acceptability.

6. Please explain in detail measures OMB is currently taking to ensure federal agencies are taking proactive measures to improve weak internal controls and implement safeguards to ensure against improper payments?

Through the President's Management Agenda, OMB is holding agencies accountable for strengthening internal controls related to financial management, including controls associated with the accuracy and integrity of payments. In order to move from "red" to "yellow" status on the Improving Financial Performance scorecard, agencies must remediate all auditor-identified internal control material weaknesses as well as those identified pursuant to the Federal Managers Financial Integrity Act. In order to move from "red" to "yellow" status on the Eliminating Improper Payments scorecard, agencies must establish corrective action plans to remediate internal control weaknesses related to payment errors.

In addition, OMB recently published a revised Circular A-123, Management Responsibility on Internal Controls, which will strengthen the overall internal control environment. This will have a beneficial effect on preventing and eliminating improper payments.

7. Pursuant to the Improper Payments Information Act of 2002 (P.L. 107-300), OMB provided implementation guidance to agencies, and provided the Social Security Administration with supplemental guidance on improper payments reporting. This guidance establishes a distinction between "avoidable" and "unavoidable" payments.

OMB is requiring all agencies, including the Social Security Administration (SSA), to fully comply with the provisions of IPIA. In some cases, however, SSA is compelled by certain statutory and judicial requirements, such as due process, as well as other timing requirements, to make payments. Thus, for improper payment purposes, SSA is judged on whether these payments were correct given such constraints. Subsequent information may indicate that a particular SSA payment should not have been made; but if the information was either unavailable at the time of the payment, or could not be incorporated into the payment determination for legal reasons, then the initial payments falls outside the scope of the improper payment effort.

8. Why did OMB decide to adopt this distinction in this context?

See Response to #7 above.

9. Are agencies required under OMB's guidance to report unavoidable improper payment information to Congress? Is SSA the only agency where "unavoidable" and "avoidable"

improper payment distinctions arise? If not, which other agencies have raised these issues and how has OMB responded to them?

Other than the situation at SSA discussed above, no other instances have been raised to OMB. If an agency is required by law to make a payment and the agency complies with such law, the payment does not fit the definition of an improper payment.

A) Are “unavoidable” improper payment statistics collected?

No.

B) Are “unavoidable” improper payment statistics reported to OMB?

No.

10. What dollar impact does the introduction of this avoidable/unavoidable distinction have on the amounts of improper payments reported by SSA for 2004? What would the improper payment rate or amount be for SSA for 2004 under 2002 improper payment definitions?

As noted above, the unavoidable payments are not included in improper payment totals. The definition of an improper payment has not changed since 2002.

11. I understand that the second step in order to comply with the IPIA, is to develop a statistically valid estimate of improper payments for all programs and activities identified as susceptible to significant improper payments in the risk assessment. According to OMB’s guidance, the statistical estimate must be based on a sample size sufficient to yield an estimate with a 90% confidence interval, plus or minus 2.5 %. Why doesn’t OMB use the standard statistical estimate of a 95% confidence interval as used in Chi square calculations?

In issuing these statistical standards, OMB’s goal was to give agencies a testing methodology that would produce payment error rate with a certain minimum precision at a reasonable cost. It is common for statistical surveys to present estimates of population parameters with either a 95% or a 90% confidence interval. The key to creating an acceptable survey is balancing the appropriate level of precision needed within a reasonable, cost effective sample size. The higher the desired degree of precision becomes; the larger the sample size must become to reach the desired confidence interval. For the purposes of the IPIA, the reasonable level (i.e., that level which best balances the costs of conducting the survey to measure results against the desired confidence level) chosen was a minimum level of precision for the estimate of +/- 2.5% with 90% confidence.

12. What changes does OMB anticipate making to its implementing guidance memorandum M-03-13 to better assist agencies in implementing the requirements of the IPIA? Will any changes be made to the sampling methodology for calculating an improper payment estimate?

After working closely with the CFO Council and individual agencies and departments over the past two years, OMB has determined that some modifications to M-03-13 may be warranted. The types of changes under consideration include, but are not limited to:

- Assisting agencies that fund State-administered grant programs in developing cost-effective methodologies to obtain national error rates;
- Incorporating the CFO Council's Alternate Methodologies white paper that discusses the use of component rates reported annually as a precursor to comprehensive reporting; and,
- Allowing for different types of statistical sampling such as attribute sampling, judgmental, and/or systemic, that integrate the nuances of differing programs thereby resulting in more informative conclusions.

13. OMB's June 2005 scorecard for eliminating improper payments show DOD's current status as "yellow," an improvement from previous scorecards in which OMB had scored DOD as "red." Please explain OMB's rationale for DOD's "yellow" status.

DOD is currently yellow on status for the EIP scorecard, because they have completed their annual risk assessments, have an OMB-approved measurement plan in place, have set improper payment reduction targets, and have developed and implemented corrective actions to reach these targets. Thus far, the two programs they are reporting on are Military Health Benefits and Military Retiree Funds. During FY 2005, as a result of their annual risk assessment, they identified an additional risk-susceptible program—Military Pay—which they will be reporting on for the first time in the FY 2005. OMB is also working with DOD to ensure more comprehensive reporting and enhanced accountability for improper payments to vendors.